

Ciudad Juarez is the prime maquiladora location in Mexico, providing about one-fifth of the nation's overall maquila employment. Over 70 of the maquiladora plants in Cd. Juarez are owned by Fortune 500 corporations, among these facilities are telecommunications, electronic assembly plants, clean room manufacturing for medical supplies, consumer appliances, and automotive industry manufacturing. A growing percentage of employment generated by maquiladoras has been in technical and administrative positions rather than direct labor.

El Paso derives significant economic benefit from the maquiladora industry in Cd. Juarez, including a payroll of \$247.8 million for maquila employees who live on the U.S. side of the border. In addition, the production-sharing sector of the border economy has attracted companion industries to the area with the maquiladora industry purchasing \$1.6 billion worth of services in El Paso. The industry has generated jobs in El Paso in indirect support industries including retail sales, manufacturing support services, professional support services, transportation, banking and home building.

The In-Bond (Maquiladora) Program

- Established in 1965 by the Mexican government to help alleviate unemployment along the U.S. - Mexico border.
- Allows a foreign (non-Mexican) individual or firm to establish wholly-owned operations in Mexico for the purpose of manufacturing products for exportation.
- Allows for temporary, duty-free (in-bond) importation of the capital equipment and machinery as well as the materials for production.
- Allows foreign ownership of real estate in border areas and seashores.
- Temporary immigration (work) permits can be readily obtained for foreigners to allow management, technical and support personnel to work in the Maquila operation. Items assembled and manufactured in Maquiladoras are to be exported from Mexico, however permission to sell in Mexico can be obtained.
- Maquiladoras must be incorporated under Mexican law.
- More than 300 Maquiladora plants in Juárez employ over 195,000 workers.

- The state of Chihuahua has 448 Maquiladora operations employing 266,716 people.
- The Maquiladora industry in Mexico employs more than 1,160,000 people in 3,288 plants.

NAFTA's Impact on the Maquiladora Program

The steady increase in trade between the United States and Mexico, largely due to increased NAFTA-related activity, has caused El Paso-Juárez to be ranked 16th in trade among the largest Metropolitan Statistical Areas in the United States. Twenty-five percent of all trade between the U.S. and Mexico crosses at the El Paso -Juarez border. Population increases in the area are double the national average for El Paso/Juarez combined.

Effective November 1, 2000 the maquiladora industry began paying import duties in Mexico on both primary material and machinery and equipment. This will apply to primary materials originating from non-NAFTA countries and exported to a NAFTA country. For machinery and equipment, the duty payment will apply to all imports depending on country of origin.

| Year | # of Employees | Net Value added (billions of dollars) | Average Hourly Wage w/ Benefits (direct labor only) in dollars |
|-------------|-----------------------|--|---|
| 1995 | 686,985 | 4.96 | 1.16 |
| 1996 | 801,257 | 6.45 | 1.21 |
| 1997 | 938,448 | 8.28 | 1.45 |
| 1998 | 1,036,743 | 10.93 | 1.94 |
| 1999 | 1,248,030 | 13.30 | 2.17 |
| 2002 | 1,316,244 | 17.60 | 2.26 |
| 2001 | 1,126,480 | 16.49 | 2.21 |

Source: Municipiode Juarez Administracion Municipal 1998-2001

Advantages of the Maquiladora Program

- Low labor costs.
- Trainable work force.
- Proximity to U.S. market and distribution centers.
- Predominantly nonunion work force.
- Experienced legal and customs services in El Paso, Juárez and Chihuahua City.
- Fine quality of life for U.S. managers living in El Paso.

- Sophisticated transportation infrastructure.
- Experienced Mexican technicians and supervisors.
- Educational institutions providing qualified graduates for industry and commerce in El Paso, Juárez and Chihuahua City.
- World-class production facilities.
- Emerging industrial support service base in El Paso, New Mexico and Juárez.

| Cd. Juarez Site Advantages | Juarez | Tijuana | Nogales |
|--|-----------------|----------------|----------------|
| Population 2000 | 1,500,00 | 1,200,000 | 133,359 |
| Number of Maquilas Apr. 2003 | 302 | 641 | 81 |
| Number of Maquilas Employees Apr. 2003 | 195,418 | 138,241 | 26,531 |
| Railroads | Two | One | One |
| Rail Infrastructure | 2,091 miles | 1,523miles | 1,396 miles |
| Distance to Mexico City | 1,142 miles | 1,523 miles | 1,396 miles |
| Distance from Airport to nearest U.S. Airport | 10 miles | 40 miles | 22 miles |
| Higher Education | 15 institutions | 5 institutions | 7 institutions |

Source: Desarrollo Economico, SIR-Sistema de Información Regional, & Chihuahua Now!

Note: Exchange rate is calculated at 10.0 pesos to the dollar

New minimum wage as of January 1, 2001 is N\$42.15 pesos daily.

$42.15/10.0 = \$4.15$ US dollars

The population referenced is not the official number, but the estimated population

Operational Alternatives Available Under the Maquiladora Program

"Shelter," "sub-contract" and "turnkey" operations represent viable alternatives to full-fledged maquila manufacturing. A sub-contract maquiladora operation involves the least commitment or activity on the part of the investor. A Shelter is a company that charges a fee for providing all basic operation in Mexico. The Shelter assumes the vast majority of the risk associated with establishing operations in Mexico, allowing the foreign manufacturer to focus on quality control and meeting production schedules.

Fully Operational Maquila

- Ships to and from Mexico-U.S. border.
- Completes customs paperwork (Maquila is importer of record in many cases).
- Manages entire Mexican operation and supervises quality control of the product (with technical assistance from U.S. corp.)
- The U.S. company retains title to machinery, equipment, raw materials or component and ships these items on consignment to the U.S. Mexico-border.
- The U.S. company gives technical assistance to Maquila on quality control.
- The U.S. company pays a piece-part price or hourly rate to Maquila.
- There is no corporate "link" between U.S. companies and Maquila other than a contract.

Contract/Shelter/Turnkey Concept

Contract

- A U.S. company sends the raw materials, maquila's ship them back as a finished product, fully imported into the U. S.
- The U.S. company has wide flexibility for production changes.
- The U. S. company is responsible for:
 - Providing and sending raw material and equipment
- The Contract company is responsible for:
 - Providing space, labor force and production management.
 - Producing according to U.S. customer quality specifications and production schedule
 - Manufacturing/assembling of product
 - Handling the logistics of transportation, delivery and customs
 - Invoicing by the hour, or price by unit basis

Shelter

- Provides U.S. company with a legal "umbrella" or shelter while U.S. company manufactures products in Mexico.
- The U.S. company has wide flexibility for production changes
- Doesn't have any legal presence in Mexico.
- The Shelter company is responsible for:
 - Personnel management
 - Transportation into Mexico from the border
 - Legal and Customs paperwork
 - Complies with Mexican taxes
 - Can locate or build the facilities the U.S. corporation needs

- Providing space and labor force
- Invoicing by the hour, piece unit, or product
- The U. S. company is responsible for:
 - Production scheduling
 - Furnishing raw materials and equipment
 - Quality control
 - Supplying the Maquila with the managers and supervisors to control the process

Turnkey

- Production changes are agreed between the U.S. company and the Maquila
- The Turnkey company is responsible for:
 - Making the complete assembly of the product according to customer specifications.
 - Purchasing all raw material and equipment in order to manufacture the product.
 - Total quality, production and delivery
- The U.S. company is responsible for:
 - Supplying the maquila with managers and supervisors to control the process